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No. 04-1329

IN THE

Supreme Court of the United States

ILLINOIS TOOL WORKS INC. *et al.*,
Petitioners,

v.

INDEPENDENT INK, INC.
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

MOTION FOR LEAVE TO FILE BRIEF FOR *AMICUS CURIAE* AND BRIEF OF *AMICUS CURIAE OF* INTELLECTUAL PROPERTY OWNERS ASSOCIATION IN SUPPORT OF CERTIORARI

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Pursuant to this Court's Rule 37.2, Intellectual Property Owners Association (IPO) respectfully moves for leave to file the attached brief *amicus curiae* in this case. The consent of the petitioner has been obtained. The consent of the respondent, Independent Ink, Inc., was requested but refused.

Amicus IPO is a national organization consisting of hundreds of large and mid-size companies, small businesses, universities, inventors, authors, executives, law firms and individual and attorneys. IPO is the only association in the U.S. that serves all intellectual property owners of patents, trademarks, copyrights and trade secrets in all industries and all fields of technology. IPO regularly represents the interests

of its members before Congress, the U.S. Patent and Trademark Office, and federal courts. The association adheres to a policy of submitting *amicus* briefs only on significant issues affecting the owners of intellectual property rights.

IPO and its members have a substantial interest in the questions presented by the Petitioner. In filing this brief, IPO seeks to bring to the Court's attention arguments and viewpoints in addition to those expressed in the petition for writ of certiorari. For example, IPO's brief points out that the Federal Circuit decision in *Independent Ink, Inc. v. Illinois Tool Works, Inc.* 396 F.3d 1342 (Fed. Cir. 2005), *petition for cert. filed*, 73 U.S.L.W. 3604 (U.S. Apr. 4, 2005) (No. 04-1329) in adhering to the precedential holding of *International Salt Co. v. United States*, 332 U.S. 392 (1947) and *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948), reaffirmed in *United States v. Loew's, Inc.*, 371 U.S. 38 (1962), holding that the mere fact of the existence of a patent on the tying product creates a presumption of market power in the relevant market in tie-in cases under Section 1 of the Sherman Act (15 U.S.C. § 1), is not justified under current economic realities. Because there often may be close substitutes in the relevant market for the patented tying product to prevent the exercise of market power, there is no rational justification for a presumption of market power based upon the mere fact of patent ownership. The presumption ignores the need to define the relevant market and any analysis of whether the patent really conveys power in such market. The presumption impedes robust development in a global economy, and antitrust plaintiffs in tying cases involving patents should be required, like all other tying plaintiffs, to prove that the seller has market power in the tying product.

In summary, IPO's brief provides the Court with the perspective of a national association having members in all major industries and fields of technology, and the perspective of parties concerned about the effects on the patent system beyond the present case.

Respectfully submitted,

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BRIEF *AMICUS CURIAE* OF INTELLECTUAL PROPERTY OWNERS ASSOCIATION IN SUPPORT OF CERTIORARI

INTEREST OF *AMICUS CURIAE*

Amicus Curiae Intellectual Property Owners Association (IPO), a tax-exempt association, is a national organization founded in 1972 to represent the owners of intellectual property in the United States.[1] IPO's members currently include over 150 large and mid-sized companies and over 250

[1] Pursuant to this Court's Rule 37.6, *amicus* represents that this brief was not authored in whole or in part by counsel for any party. Petitioner, an IPO member, made no monetary contribution to the preparation or submission of this brief beyond normal membership dues payments. No other person or entity made a monetary contribution other than IPO, its members, or its counsel.

small businesses, law firms, inventors, authors, executives and attorneys who own or are interested in patents and other forms of intellectual property in any industry or field of technology. IPO members are granted about 30 percent of the patents issued by the U.S. Patent and Trademark Office to U.S. nationals. IPO regularly represents the interests of its members before Congress and the U.S. Patent and Trademark Office, and has filed *amicus curiae* briefs in this Court and other courts on significant issues of intellectual property law.

IPO expressly declines to take any position on whether there is a factual basis for finding market power. IPO is concerned with the interests of all of its members in all industries and all fields of technology. IPO believes that while the Federal Circuit strictly applied Supreme Court precedent, the market power presumption unfairly singles out patent holders and creates a tension with modern economic theory. The Federal Circuit's *Independent Ink* opinion, if not vacated or modified by the Court, will adversely affect existing and future patent rights of a large number of IPO members.

In this brief, IPO explains the how the Federal Circuit's *Independent Ink* decision could affect the outcome of this and future cases. IPO believes its brief will be helpful to the Court in considering Petitioners' writ of certiorari. The filing of this brief was approved by IPO Board of Directors, the members of which are listed in the Appendix.

INTRODUCTION

The United States Court of Appeals for the Federal Circuit reversed the summary judgment that had been granted in favor of Petitioners Illinois Tools Works, Inc. ("ITW") and Trident, Inc. ("Trident") under a Sherman Act Section 1 (15 U.S.C. § 1) theory brought in a tie-in case in the district court involving Trident and ITW's U.S. Patent No. 5,343,226 ("the `226 patent"). The Federal Circuit panel, in reversing the

summary judgment granted in favor of ITW and Trident, relied on the holdings in *International Salt Co. v. United States*, 332 U.S. 392 (1947), and *United States v. Loew's, Inc.*, 371 U.S. 38 (1962), and held that patent and copyright tying, unlike other tie-in cases, does not require a showing of market power. Instead, "*International Salt* and *Loew's* make clear that the necessary market power to establish a section 1 violation is presumed."[2] The Federal Circuit denied ITW and Trident's request that the Federal Circuit hold that *International Salt* and *Loew's* were no longer good law. The Federal Circuit concluded that, despite the perceived inadequacies of "the two cases," it still "remains the '[Supreme] Court's prerogative alone to overrule one of its precedents.'" *Indep. Ink, Inc., v. Ill. Tool Works, Inc.*, 396 F.3d 1342, 1351 (Fed. Cir.), *petition for cert. filed*, 73 U.S.L.W. 3604 (U.S. Apr. 4, 2005) (No. 04-1329) (quoting *State Oil Co. v. Khan*, 522 U.S. 3, 20 (1997)).

Our members believe that the decisions of *International Salt* and *Loews* should at long last be overruled. The Federal Circuit's *Independent Ink* opinion, if not vacated or modified by the Court by eliminating the presumption of market power in patent tie-in cases established under *International Salt* and *Loews's*, will adversely affect existing and future patent rights of a large number of IPO members. IPO believes its brief will be helpful to the Court in considering Illinois Tool Works and Trident, Inc.'s petition for writ of certiorari.

SUMMARY OF ARGUMENT

The burden of proving market power should be placed and remain on the antitrust plaintiff in a patent tie-in case, just as it is in any tying case not involving a patent or copyright. There should be no presumption that because the tying

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[2] *Indep. Ink, Inc. v. Ill. Tool Works, Inc.*, 396 F.3d 1342, 1348-49 (Fed. Cir.), *petition for cert. filed*, 73 U.S.L.W. 3604 (U.S. Apr. 4, 2005) (No. 04-1329).

product is patented, it somehow inherently defines the relevant market and mandates a finding of market power.

There are compelling reasons for now reconsidering the market power presumption in tie-in cases involving a patent. Such presumption is at odds with the Court's contemporary approach as to how an antitrust plaintiff must prove market power in non-patent tying cases. The application of the presumption of market power theory in a patent tie-in case has been repeatedly rejected by the Federal Trade Commission and the Department of Justice, two federal antitrust enforcement agencies responsible for enforcing the nation's antitrust laws. The presumption has been questioned by several circuit courts and antitrust commentators, as an unfair burden imposed upon patent and copyright owners that does not extend to any other type of antitrust defendant involved in a tie-in case. The *Independent Ink* case cleanly presents the opportunity to the Court of deciding the validity *vel non* of the presumption's application to antitrust enforcement in view of modern economic theories. The Court should grant the petition to resolve this important question of antitrust law.

ARGUMENT

I. THERE SHOULD BE NO PRESUMPTION THAT A PATENT DEFINES AND CONFERS MARKET POWER IN A RELEVANT MARKET ON A TYING PRODUCT UNDER SECTION 1 OF THE SHERMAN ACT

The Federal Circuit stated that it was compelled to follow this Court's precedent that a rebuttable presumption of market power arises from the mere possession of a patent on the tying product sufficient to establish a prima facie Sherman Act Section 1 (15 U.S.C. § 1) patent tying claim.[3] This

[3] Tying arrangements violate Section 1 of the Sherman Act (15 U.S.C. § 1) "if the seller has 'appreciable economic power' in the tying product market and if the arrangement affects a substantial volume of commerce in the tied market.'" *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 462 (1992) (citation omitted).

Court established such precedent more than 50 years ago in *International Salt Co. v. United States*, 332 U.S. 392 (1947) and *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948), and re-affirmed in *United States v. Loew's, Inc.*, 371 U.S. 38 (1962),[4] where it held that the presumption that market power exists in a tie-in case when the tying product is patented or copyrighted and is sufficient to establish a prima facie Sherman Act Section 1 (15 U.S.C. § 1) right of action. That precedent should now be overturned, as it is contrary to modern economic theory involving tie-ins. Instead, just as in any other tie-in case, the burden of proof should remain wholly on the antitrust plaintiff to establish market power in a patent tie-in case as one of several elements of a cognizable Sherman Act Section 1 (15 U.S.C. § 1) claim. Tie-in cases involving a patent on the tying product should not be treated any differently. The Court should act to overturn the presumption of market power in intellectual property tie-in cases crafted in *International Salt* and *Loew's* and keep the entire burden of proving market power on the antitrust plaintiff to harmonize the law with non-patent tie-in cases.

A. The Burden of Proving Market Power Should Remain on the Antitrust Plaintiff in a Patent Tying Case Without the Benefit of a Market Power Presumption

The standards for patentability should not be construed to be equal to the standards of economic power necessary to support anticompetitive behavior in the relevant market. The

[4] Relying on the holding in *International Salt* and *Paramount Pictures*, the Court held that where the tying product is patented or copyrighted, market power may be presumed rather than proven. *Loew's*, 371 U.S. at 45.

burden of proving market power in tie-in cases involving a patent on the tying product should be held to rest solely on the antitrust plaintiffs in proving their case—no different than the burden faced by antitrust plaintiffs when they attempt to prove anticompetitive effects in tie-in cases not involving intellectual property. This Court long ago recognized that there is nothing inherently anticompetitive about patent ownership. *Mazer v. Stein*, 347 U.S. 201, 219 (1954) ("The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in 'Science and useful Arts.'") Moreover, this Court has also observed that "'A patent by its very nature is affected with a public interest. . . . (It) is an exception to the general rule against monopolies and to the right to access to a free and open market." *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 343 (1971) (citing *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 816 (1945)). Many courts when faced with a tie-in case have concluded that a patent on the tying product alone does not confer market power.[5]

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[5] *Am. Hoist & Derrick Co. v. Sowa & Sons., Inc.*, 725 F.2d 1350, 1367 (Fed. Cir. 1984) ("patent rights are not legal monoplies in the antitrust sense of that word."); *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1325-26 (Fed. Cir. 2000) ("A patent alone does not demonstrate market power."); *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 872 (Fed. Cir. 1997) ("Violation of the antitrust laws always requires . . . market power in a defined relevant market (which may be broader than that defined by the patent . . . ."); *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665, 673 n.4 (7th Cir. 1985) (Easterbrook, J.); *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 511 (7th Cir. 1982) (Posner, J.) ("[O]f course, not every patent confers market power . . . ."); *Schlafly v. Pub. Key Partners*, No. 94-20512 SW, 1997 WL 564073, at *4 (N.D. Cal. Aug. 29, 1997) ("A patent does not of itself establish a presumption of market power in the antitrust sense.") (citations omitted), *aff'd*, 155 F.3d 565 (Fed. Cir. 1998) ("Mere possession of a patent, or a family of patents, does not establish a presumption of antitrust market power."); *F.B. Leopold Co., v. Roberts Filter Mfg. Co.*, 882 F. Supp. 433, 454 (W.D. Pa. 1995) (patent on porous plate, the tying product, insufficient to establish market power), *aff'd*, 119 F.3d 15 (Fed. Cir. 1997); *Chiuminatta Concrete Concepts, Inc. v. Target Prods., Inc.*, No. CV 92-1523 LGB (SX), 1992 WL 465720, at *4 (C.D. Cal. Dec. 2, 1992) (patent on certain skid plates, the tying products, insufficient to establish market power in tying claim), *aff'd*, 19 F.3d 41 (Fed. Cir. 1994); *Atari Games Corp. v. Nintendo of Am. Inc.*, 897 F.2d 1572, 1576 (Fed. Cir. 1990) ("[T]he aims and objectives of patent and antitrust laws may seem, at first glance, wholly at odds. However, the two bodies of law are actually complementary, as both are aimed at encouraging innovation, industry and competition.").

Patent rights are derived from the Constitution,[6] and as interpreted by Congress, a patent grants inventors "'the right to exclude others from making, using, offering for sale, selling, or importing the patented invention,' in exchange for full disclosure of an invention." *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 372 (1996) (quoting H. Schwartz, *Patent Law and Practice* 1, 33 (2d ed. 1995)). The grant of a U.S. patent conveys a unique form of property, with the rights to exclude others from using the invention if certain criteria are met,[7] as "patents are not given as favors . . . but are meant to encourage invention by rewarding the inventor with the right, limited to a term of years fixed by the patent, to exclude others from the use of his invention." *Eldred v. Ashcroft*, 537 U.S. 186, 215-16 (2003) (quoting *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 229-30

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[6] "The [U.S.] Constitution empowers Congress '[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.' U.S. Const. art. I, § 8, cl. 8. Congress first exercised this authority in 1790, when it provided for the issuance of 'letters patent,' Act of Apr. 10, 1790, ch. 7, § 1, 1 Stat. 109." *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 372 (1996).

[7] "The claimed subject matter must be useful, novel, and not obvious." *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 736 (2002) (citing 35 U.S.C. §§ 101-103 (1994 ed. and Supp. V)).

(1964)). In essence, a patent is merely a time-limited opportunity to try to capture a return on an investment of time and capital. A patent is not a guarantee that the patentee will ever earn anything from that bundle of rights granted by Act of Congress. The gamble that the inventor invariably is compelled to take once she submits an application to the Patent Office is that the relevant market may not be mature enough to appreciate the commercial aspects of the invention during the patent's enforceable period.[8] Simply stated, the market's inability to recognize or calculate the value of an invention is one of the hazards of a limited patent term. *See* Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse* 55 Hastings L.J. 399, 445 (2003).

Indeed, there can be no argument that the grant of a patent is the grant of a statutory monopoly, just as the grant of patents in England was an explicit exception to the statute of James I prohibiting monopolies. *See Sears*, 376 U.S. at 229-30 (citing *The Case of Monopolies* (*Darcy v. Allein*), 77 Eng. Rep. 1260 (K.B. 1602)). However, the standards for patentability should not be construed to equate with the standards of economic power necessary to support anticompetitive behavior in the relevant market.[9] It is only at a minimum threshold that before a patent is granted, the claimed subject

[8] It should be noted that Congress has also long enjoyed the right to modify or even extend the term of the limited patent monopoly when it sees fit by exercising its "constitutional right to confer a new and further term on the patentee." *Blanchard v. Haynes*, 3 F. Cas. 628, (C.C.D.N.H. 1848) (No. 1512) (citing *Stimpson v. W. Chester R Co.*, 45 U.S. (4 How.) 380 (1846); *Evans v. Jordan*, 13 U.S. (9 Cranch) 199 (1815); *Grant v. Raymond*, 31 U.S. (6 Pet.) 218 (1832).

[9] William Montgomery, *The Presumption of Economic Power for Patented and Copyrighted Products in Tying Arrangements*, Note, 85 Colum. L. Rev. 1140, 1149 (1985) ("[T]he existence of a patent or copyright provides little, if any, evidence of supernormal profits, barriers to entry, consumer preferences, or absence of adequate substitutes. It thus does not dispose of the question whether a product has market power.").

matter only "must be useful, novel, and not obvious." *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 736 (2002) (citing 35 U.S.C. §§ 101-103 (1994 ed. and Supp. V)). "The patent application must describe, enable, and set forth the best mode of carrying out the invention." *Id.* (citing 35 U.S.C. § 112 (1994)). Only these substantive requirements must be satisfied before issuance of the patent, for exclusive patent rights are given in exchange for disclosing the invention to the public. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989) ("The Patent Clause itself reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the 'Progress of Science and useful Arts.'"); *J.E.M. AG Supply, Inc. v. Pioneer Hi-Bred Int'l, Inc.*, 534 U.S. 124 (2001) ("The disclosure required by the Patent Act is 'the *quid pro quo* of the right to exclude.'" (quoting *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 484 (1974)); *Brenner v. Manson*, 383 U.S. 519, 534 (1966) ("The basic *quid pro quo* . . . for granting a patent monopoly is the benefit derived by the public from an invention with substantial utility."); *Graver Tank & Mfg. Co. v. Linde Air Prods. Co.*, 339 U.S. 605 (1950) (the disclosure of inventions, "is one of the primary purposes of the patent system").

IPO believes that petitioners' writ of certiorari should be granted so that the Court can determine that a patent, without more, merely is a grant of a property right to exclude others for limited times from making, using selling, offering to sell or importing into the U.S., the invention claimed in the patent, and cannot serve as a substitute for actual evidence of market power. The Court should act to harmonize the law for matters involving patent tie-ins with those of non-patent tie-in cases, which are only unlawful if the antitrust defendant has demonstrable market power in the relevant market for the tying product. *United States Steel Corp. v. Fortner Enters.*,

Inc., 429 U.S. 610, 620 (1977).[10] In tie-in cases not involving intellectual property, this Court has clearly held that there must be proof of "forcing" or market power resulting in an "actual adverse effect on competition" in the relevant market by the tying arrangement and that patents and copyrights are not synonymous with "market power." *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 29-31, 37 n.7 (1984).[11]

The principle behind the need to eliminate the presumption of market power can be shown by way of example. If an owner of an entire multi-unit condominium complex in a typical city required each buyer to dine in a mezzanine level restaurant in that building three times per week as a condition of purchasing a condominium unit, there should be no presumption that the multi-unit complex owner somehow has market power in the relevant tying condo market in that city sufficient to "force" buyers to purchase their meals in the mezzanine restaurant, i.e., the tied product. Market power would have to be proven by the antitrust plaintiff, not presumed as no intellectual property is involved, and it is

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[10] Determining market power requires making an inquiry into "whether the seller has the power, within the market for the tying product, to raise prices or to require purchasers to accept burdensome terms that could not be exacted in a completely competitive market." The requirement of demonstrating sufficient market power to raise prices was notably more onerous than the *Northern Pacific* requirement that there be some power to "appreciably restrain free competition." *United States Steel*, 429 U.S. at 620 (citing *N. Pac. R. Co. v. United States*, 356 U.S. 1 (1958)).

[11] In *Jefferson Parish*, 466 U.S. at 37 n.7, Justice O'Connor wrote in concurrence:

> "A common misconception has been that a patent or copyright, a high market share, or a unique product that competitors are not able to offer suffices to demonstrate market power. While each of these three factors might help to give market power to a seller, it is also possible that a seller in those situations will have no market power: for example, a patent holder has no market power in any relevant sense if there are close substitutes for the patented product."

unlikely to exist in a city where much cross-elasticity of demand exists due to the existence of many other condominium complexes competing for a share of the potential buyer market.

The argument is no different if the property at issue is intellectual and not tangible. Whether the property is real property or intellectual property should not be a determinative factor in deciding whether the owner possesses market power, and to shift the burden of proof to the property owner to establish the lack of market power. The same principle should be applied to patent tie-in cases, where no market power should be presumed in the tying patented product just because it met the minimum standards for novelty, usefulness, and non-obviousness, all patentability criteria wholly unrelated to the economic factors underpinning modern antitrust theory.

IPO requests the Court to hold that no presumption of market power exists, rebuttable or otherwise, and the burden of proving market power should be held to reside on the antitrust plaintiff in a patent tying case.

B. There is No Rational Economic Basis for a Presumption of Market Power Because Patents Do Not Inherently Define A Relevant Market

As numerous commentators have recognized, merely owning a patent does not confer market power to the patent owner sufficient to satisfy the stringent requirements of a Sherman Act Section 1 (15 U.S.C. § 1) tie-in case. The assumptions underlying the presumption are invalid. The presumption is based on the mere right of a patent owner to exclude from practicing his or her invention without permission. This right to exclude does not confer market power on the patent owner for the simple reason that there may be close non-infringing substitutes for the patented product that would defeat any attempt by the patent owner to

exercise market power. Thus, the existence of non-infringing substitutes renders the market broader than that defined by the patent.

Indeed, the majority of patents lack real commercial value; to the extent that patents have inherent value, they face robust competition in the marketplace. For example, a company that has a 1% share of the personal computer market hardly has market power in that market merely because the company owns a patent that relates to one component of the computer. However, it is economically rational for the company to only sell the component inside of its computer. The recognition that a patent, without more, does not confer market power was recognized by Justice O'Connor in her concurring opinion in *Jefferson Parish* that "a patent holder has no market power in any relevant sense if there are close substitutes for the patented product." *Jefferson Parish* , 466 U.S. at 37 n.7.

Prominent antitrust scholars have also long expressed serious doubts about the alleged anticompetitive effects of tie-ins. Phillip E. Areeda, Einer Elhauge & Herbert Hovenkamp, *Antitrust Law* ¶ 1737c, at 82 (2d ed. 2004) ("If *Salt* really required power and inferred it from any patent, it erred. By contrast, if *Salt* was essentially indifferent to power over the tying product, it has been overruled by the legal rule adopted in *Fortner II* [*United States Steel Corp. v. Fortner Enters.*, 429 U.S. 610 (1977)] and *Jefferson Parish*."); Phillip Areeda & Donald F. Turner, *Antitrust Law* ¶ 1134b, at 205 (1980) (tying may simply be used as an efficient method of effecting lawful price discrimination, as a means of preserving consumer confidence in the performance of a complex product, or, in the case of servicing tied to distribution of a complex product, an efficient mode of generating information leading to product improvement."); Robert H. Bork, *The Antitrust Paradox*, 365, 372-75 (1978) ("The Supreme Court has seen in this tying together of transactions nothing but the

suppression of competition. . . . [I]t is safe to say that suppression of competition is the one function not accomplished by the arrangements the Court has struck down."); Richard A. Posner, *Antitrust Law*, 197-207 (2d ed. 2001) ("[t]he frequency with which patents have been involved in tie-in cases may stem from the fact that the earliest such cases were not antitrust cases at all. They were patent-misuse cases, where the issue was whether the patentee had improperly extended the patent monopoly by monopolizing an unpatented product tied to the patented product."(citing *Motion Picture Patents Co. v. Universal Films Mfg. Co.*, 243 U.S. 502 (1917)); Herbert Hovenkamp, *Federal Antitrust Policy* § 10.3 (2d ed. 1999) ("Most patents confer absolutely no market power on their owners. . . [The] economic case for 'presuming' sufficient market power . . . simply because the tying product is patented . . . is very weak.")

It is clear under the application of modern economic theory that the tying of a patented product will not grant the patent owner any power to affect the price of the tied product. There is no reason to assume that tying with a patented article would adversely affect the market for an unpatented tied article even if there are no substitutes as the patented tying article may not be worth enough to the buyer to unduly influence the market for the tied product.

C. The Market Power Presumption Deters Conduct by Patent Owners that Benefits Consumers

Historically, it has long been considered to be unprofitable and inefficient to bundle together large numbers of unrelated goods. However, some recent scholars have posited that tying increases the availability of goods, especially with respect to digital informational goods. Yannis Bakos & Erik Brynjolfsson, *Bundling Information Goods: Pricing, Profits and Efficiency*, Management Science (Dec. 1999) ("*Bundling*

Information Goods"); Yannis Bakos & Erik Brynjolfsson, *Bundling and Competition On The Internet*, Marketing Science (Jan. 2000).

Bundling very large numbers of unrelated information goods can be quite profitable. The reason is that the law of large numbers makes it much easier to predict consumers' valuations for a bundle of goods than their valuations for the individual goods when sold separately. A "predictive value of bundling" makes it possible to achieve greater sales, greater economic efficiency and greater profits per good from a bundle of information goods than can be attained when the same goods are sold separately. *See Bundling Information Goods* at 2-3.

Circuit courts since *Jefferson Parish*, have held or suggested that the mere ownership of a patent, *viz.*, a "legal monopoly" does not equate to market power sufficient to support a per se rule against tie-ins involving patents. *A.I. Root Co. v. Computer/Dynamics, Inc.*, 806 F.2d 673, 676-77 & n.3 (6th Cir. 1986) ("*Loew's* [was] overbroad and . . . we reject any absolute presumption of market power for copyright or patented product . . . such a presumption is not warranted merely by existence of a copyright or patent."); *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505 (7th Cir. 1982) (suggesting *in dicta* that proof of market power may be required in patent and copyright tie-ins); *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665 (7th Cir. 1985)

IPO requests the Court to hold that there is no rational economic basis for a presumption of market power because patents do not inherently define a relevant market; the burden of proving market power should be held to reside on the antitrust plaintiff in a patent tie-in case.

D. The Market Power Presumption Facilitates the Assertion of Baseless Antitrust Counterclaims by Infringers

Baseless antitrust claims will deter patent owners from attempting to properly protect their patents from infringers. A clear harmful effect in the practical application of the presumption is that it provides an incentive to patent infringement defendants to bring Sherman Act counterclaims against patentees who are only properly seeking to enforce their patent rights by bringing infringement suits. The windfall of the burden shift onto the patentee to rebut a presumed market power element raises the likelihood that meritless or weak antitrust claims will survive motions to dismiss and summary judgment. The presumption blunts the patentee's underlying patent infringement case, and increases the risk to the public that a potentially invalid patent will not be judicially examined or patent claim terms not be construed, as the risk of incurring statutorily mandated treble damages for Sherman Act liability tips the scales towards a rush to settle the underlying patent action and antitrust counterclaims, to avoid the expense, and treble damages risk, of an extended antitrust trial. It seems likely that in the intervening decades since *International Salt* was decided, the presumption has invariably been used in antitrust counterclaims in patent infringement cases to increase the cost of owning and enforcing patented intellectual property. *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 593 (1986) (citation omitted) (The "effect" of implausible inferences to require a jury trial "is often to deter procompetitive conduct.")

E. The Department of Justice and Federal Trade Commission Do Not Apply a Presumption of Market Power When Evaluating a Tie-In Case Involving a Patent on the Tying Product

Perhaps the most persuasive support for IPO's argument that the time is ripe to eliminate the market power presumption are the policies promulgated by the two agencies of the executive branch empowered with enforcing the federal antitrust laws, *viz.*, the Department of Justice and Federal Trade Commission ("the Agencies"). The Agencies have squarely rejected the notion that merely having a patent on the tying product somehow confers a prima facie presumption of market power.[12] Instead, the Agencies have elected to closely follow the guidance provided by Justice O'Connor's concurrence in *Jefferson Parish*, and require an antitrust plaintiff *to prove* market power. The Guidelines expressly state they are based on three underlying principles: "(a) for the purpose of antitrust analysis, the Agencies regard intellectual property as being essentially comparable to any other form of property; (b) *the Agencies do not presume that intellectual property creates market power in the antitrust context*; and (c) the Agencies recognize that intellectual property licensing allows firms to combine complementary factors of production and is generally procompetitive." U.S. Dept of Justice & Fed. Trade Comm'n, *Antitrust Guidelines for the Licensing of Intellectual Property* § 2 (1995)[13] (emphasis added).

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[12] U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Guidelines for the Licensing of Intellectual Property* § 5.3 (1995) (the "Guidelines").

[13] The pro-competitive effects of patenting were also recently discussed by the DOJ and FTC after a series of public hearings set forth in the recent Report by the Federal Trade Commission "To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy" Chap. 6 (October 2003).

The Court should carefully weigh that both federal Agencies have repeatedly made clear that patent tying arrangements frequently result in significant efficiencies and procompetitive benefits.[14] The fact that the two principal federal antitrust enforcement agencies decline as part of their prosecutorial discretion to "presume" market power when evaluating a patent tie-in case lends strong support that it is the appropriate time to overturn the market power presumption originating under *International Salt*, a case that was decided in the economic climate that followed in on the heels of the Great Depression and the Second World War in the first half of the last century.

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[14] The Agencies' joint policy is that they "[w]ill not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner." Guidelines § 5.3; R. Hewitt Pate, Acting Assistant Attorney General, *Antitrust and Intellectual Property*, Address before the American Intellectual Property Law Association. (Jan. 24, 2003), *available at* http.//www.doj.gov/atr/public/speeches/200701.pdf ("Because patents do not necessarily confer market power, there is no presumption that tying arrangements involving patented products necessarily are illegal.") (citing the Guidelines § 5.3); Makan Delrahim, Deputy Assistant Attorney General, *Contemporary Issues at the Intersection of Intellectual Property and Antitrust*, Remarks made before the Fair Competition & Market Economy 2004 Shanghai International Forum, Shanghai, China, (Nov. 10, 2004), *available at* http://www.doj.gov/atr/public/speeches/206607.pdf (the DOJ recognizes that "[c]lose substitutes in the marketplace may foreclose the [patented product] from realizing any meaningful return") (citing the Guidelines §§ 2.1-2.2).

CONCLUSION

The Petitioner's writ of certiorari should be granted.

Respectfully submitted,

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APPENDIX

APPENDIX

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